

ESCALANTE CITY
FINANCIAL STATEMENTS
JUNE 30, 2005

C O N T E N T S

Page

INDEPENDENT AUDITOR'S REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	17
STATEMENT OF ACTIVITIES	18
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET	19
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS	20
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	21
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	22
STATEMENT OF NET ASSETS - PROPRIETARY FUND	23
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND	24
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	25
NOTES TO FINANCIAL STATEMENTS	26
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):	
BUDGETARY COMPARISON SCHEDULES:	
GENERAL FUND	44
NOTE A - BUDGETARY COMPARISON SCHEDULE BUDGET-TO-GAAP RECONCILIATION	46
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	48
AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE	50

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

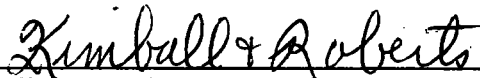
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Escalante City as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Escalante City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Escalante City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2005, on our consideration of Escalante City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 and 44 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 16, 2005
Richfield, Utah

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is used to assist in formatting, for easier reading)

ESCALANTE CITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

This discussion of Escalante City's financial performance provides an overview of the City's financial activities for the year ending June 30, 2005. This report is in conjunction with the City's financial statements.

The purpose of the City is to provide general services to its residents which includes general government, public safety, highways, parks and recreation.

Financial Highlights

- * The assets of Escalante City exceeded its liabilities as of the close of the most recent year by \$3,897,007 (net assets). Of this amount, \$441,383 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- * The government's total net assets increased by \$369,275. The revenues were less than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts.
- * At the close of the current year, the Escalante City governmental fund reported ending fund balance of \$318,794, an increase of \$49,224 in comparison with the prior year. Approximately 13 percent of this total amount, \$40,082, is available for spending at the government's discretion (unreserved fund balance).
- * At the end of the current year, unreserved fund balance for the general fund was \$40,082, or 6 percent of total general fund expenditures.
- * Escalante City's total debt decreased by \$107,000 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Escalante City's basic financial statements. Escalante City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Escalante City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of Escalante City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Escalante City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Escalante City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of Escalante City include general government, public safety, highways and parks and recreation. The business-type activity of Escalante City is the utility fund, containing water and sewer services.

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Escalante City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Escalante City can be divided into two categories: governmental funds and enterprise funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Escalante City maintains one governmental fund, the general fund, which is always a major fund.

Escalante City adopts an annual appropriated budget for all its general fund. A budgetary comparison statement has been provided to demonstrate legal compliance with the adopted budget.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Escalante City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Escalante City uses an enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund is considered a major fund of Escalante City.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Escalante City.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Escalante City, assets exceeded liabilities by \$3,897,007 at the close of the most recent fiscal year.

By far the largest portion of Escalante's net assets (79 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Escalante uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Escalante's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Escalante City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	320,572	274,926	516,674	492,652	837,246	767,578
Capital Assets	<u>1,113,076</u>	<u>810,500</u>	<u>3,027,836</u>	<u>3,137,061</u>	<u>4,140,912</u>	<u>3,947,561</u>
Total Assets	<u>1,433,648</u>	<u>1,085,426</u>	<u>3,544,510</u>	<u>3,629,713</u>	<u>4,978,158</u>	<u>4,715,139</u>
Long-Term Liabilities	17,873	12,651	1,052,000	1,159,000	1,069,873	1,171,651
Other Liabilities	<u>1,778</u>	<u>5,356</u>	<u>9,500</u>	<u>10,400</u>	<u>11,278</u>	<u>15,756</u>
Total Liabilities	<u>19,651</u>	<u>18,007</u>	<u>1,061,500</u>	<u>1,169,400</u>	<u>1,081,151</u>	<u>1,187,407</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	1,113,076	810,500	1,966,336	1,967,661	3,079,412	2,778,161
Restricted	278,712	222,647	97,500	88,000	376,212	310,647
Unrestricted	<u>22,209</u>	<u>34,272</u>	<u>419,174</u>	<u>404,652</u>	<u>441,383</u>	<u>438,924</u>
Total Net Assets	<u>1,413,997</u>	<u>1,067,419</u>	<u>2,483,010</u>	<u>2,460,313</u>	<u>3,897,007</u>	<u>3,527,732</u>

A portion of Escalante City's net assets (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$441,383, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, Escalante City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities increased Escalante City's net assets by \$346,578. Key elements of this increase follows:

Escalante City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	27,571	39,142	326,807	337,614	354,378	376,756
Operating Grants	50,513	72,952			50,513	72,952
Capital Grants	334,883	468,990	-	-	334,883	468,990
General Revenues:						
Property Taxes	87,149	86,351	-	-	87,149	86,351
Other Taxes	154,784	138,967	-	-	154,784	138,967
Grants and Contributions						
Not restricted	-	-	-	-	-	-
Gain on Sale of Assets	13,113				13,113	
Unrestricted Investment						
Earnings	17,155	9,997	-	-	17,155	9,997
Other	-	-	2,000	15,000	2,000	15,000
Total Revenues	685,168	816,399	328,807	352,614	1,013,975	1,169,013
Expenses:						
General Government	217,369	185,410	272,179	235,163	489,548	420,573
Public Safety	35,883	61,995	-	-	35,883	61,995
Highways	79,596	77,013	-	-	79,596	77,013
Parks and Recreation	5,742	3,800	-	-	5,742	3,800
Interest on Long-Term Debt	-	-	33,931	50,964	33,931	50,964
Total Expenses	338,590	328,218	306,110	286,127	644,700	614,345
Increase in Net Assets						
Before Transfers	346,578	488,181	22,697	66,487	369,275	554,668
Transfers	-	-	-	-	-	-
Increase in Net Assets	346,578	488,181	22,697	66,487	369,275	554,668
Net Assets - Beginning	1,067,419	579,238	2,460,313	2,393,826	3,527,732	2,973,064
Net Assets - Ending	1,413,997	1,067,419	2,483,010	2,460,313	3,897,007	3,527,732

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-Type Activities

Business-type activities increased Escalante City's net assets by \$22,697, accounting for 6 percent of the growth in the government's net assets. Key elements of the changes are shown above.

- * The revenues met or exceeded the adopted budget amounts, and expenses were less than the adopted budget amounts.

Financial Analysis of the Government's Funds

As noted earlier, Escalante City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of Escalante City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing Escalante City's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, Escalante City's governmental fund reported ending fund balance of \$318,794, an increase of \$49,224 in comparison with the prior year. Approximately 13 percent of this amount, \$40,082 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed: 1) to highways and public improvements, \$276,000; 2) landfill postclosure, \$2,712.

The general fund is the chief operating fund of Escalante City. At the end of the current year, unreserved fund balance of the general fund was \$40,082, while total fund balance reached \$318,794. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6 percent of total general fund expenditures, while total fund balance represents 50 percent of that same amount.

Proprietary Funds

Escalante City's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the enterprise fund at the end of the year was \$419,174. Other factors concerning the finances of this fund has already been addressed in the discussion of Escalante City's business type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of \$380,942 can be briefly summarized as follows:

- | | |
|---|----------------------------------|
| * \$342,657 increase in general government. | * \$41,585 increase in highways. |
| * (\$4,450) decrease in public safety. | * \$1,150 increase in parks. |

Of this increase, the \$31,000 was funded out of prior year unreserved fund balance. During the year, however, the City received a federal grant of \$249,643 for airport improvements. At year end actual revenues were less than budgeted revenues by \$46,014, and actual expenditures were less than budgeted expenditures by \$95,238 resulting in a net increase in fund balance of \$49,224.

Capital Asset and Debt Administration

Capital Assets

Escalante City's investment in capital assets for its governmental activities as of June 30, 2005, was \$1,113,076 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads, highways and bridges. The total increase in Escalante City's investment in capital assets for the current year was \$369,950. Major capital asset events during the current year included the following:

- * Building improvements to City Office \$8,000.
- * Senior Center \$45,000
- * Airport improvements \$250,350.
- * Grader for streets \$40,000.
- * Pavilion \$26,600

Escalante City's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	61,100	61,100	154,744	154,744	215,844	215,844
Water Shares			54,000	54,000	54,000	54,000
Infrastructure	92,200	108,200	-	-	92,200	108,200
Buildings	140,500	146,700	-	-	140,500	146,700
Improvements Other than Buildings	783,276	-	2,763,792	2,871,317	3,547,068	2,871,317
Equipment	36,000	494,500	55,300	57,000	91,300	551,500
Total	<u>1,113,076</u>	<u>810,500</u>	<u>3,027,836</u>	<u>3,137,061</u>	<u>4,140,912</u>	<u>3,947,561</u>

Additional information on Escalante City's capital assets can be found in the notes to the financial statements.

Long -Term Debt

At the end of the current year, Escalante City had total long-term debt outstanding of \$1,069,873. The debt represents compensated absences at June 30, 2005 of \$17,873 and revenue bonds of \$1,052,000.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Long-Term Debt	<u>17,873</u>	<u>12,651</u>	<u>1,052,000</u>	<u>1,159,000</u>	<u>1,069,873</u>	<u>1,171,651</u>

Long -Term Debt (Continued)

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the City. The current debt limitation for the City is approximately \$4,700,000. The City has no general obligation debt.

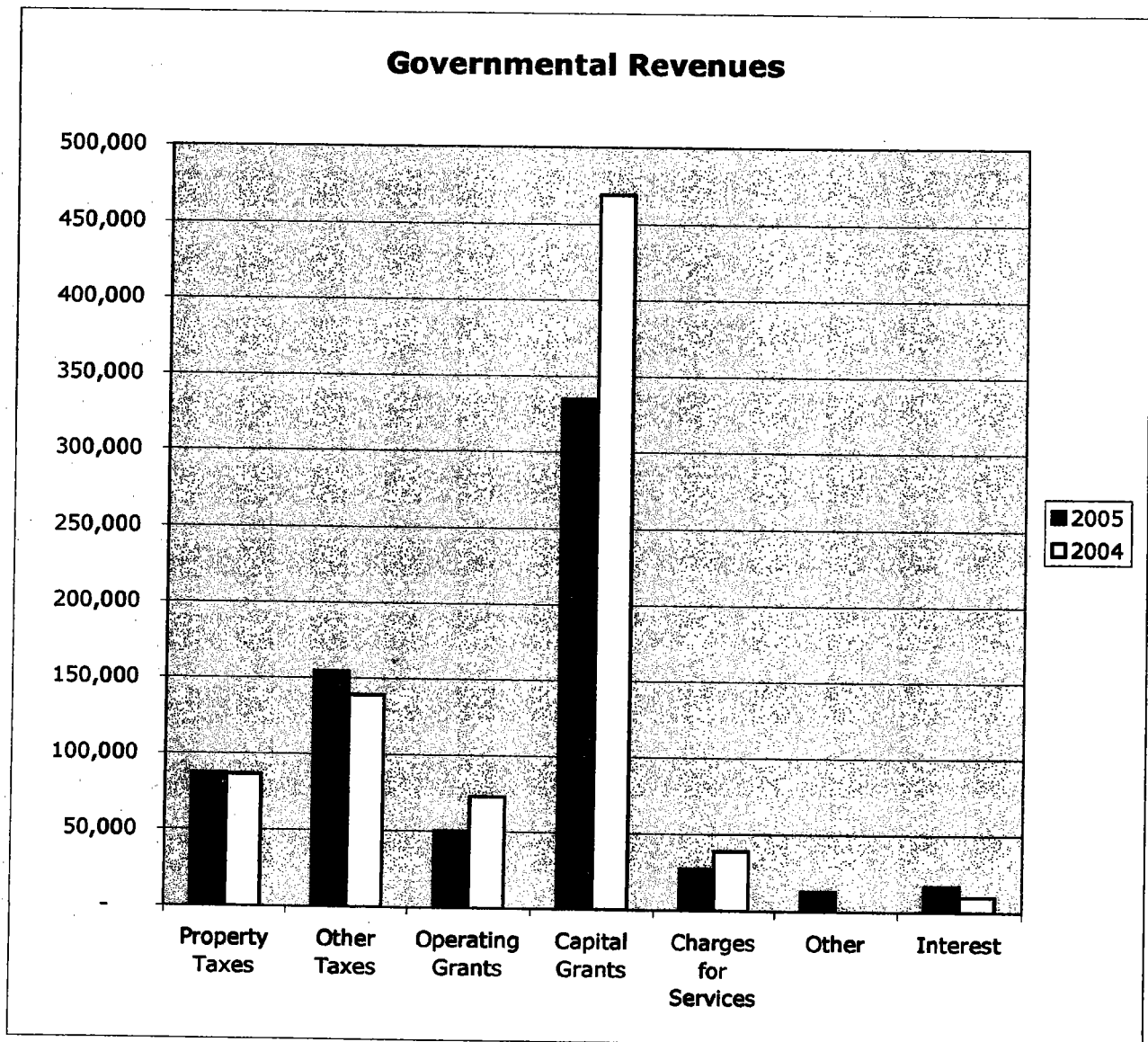
Additional information on the City's long-term debt can be found in the notes of the financial statements.

Request for Information

This financial report is designed to provide a general overview of Escalante City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Escalante City Recorder, P.O. Box 189, Escalante, Utah, 84726.

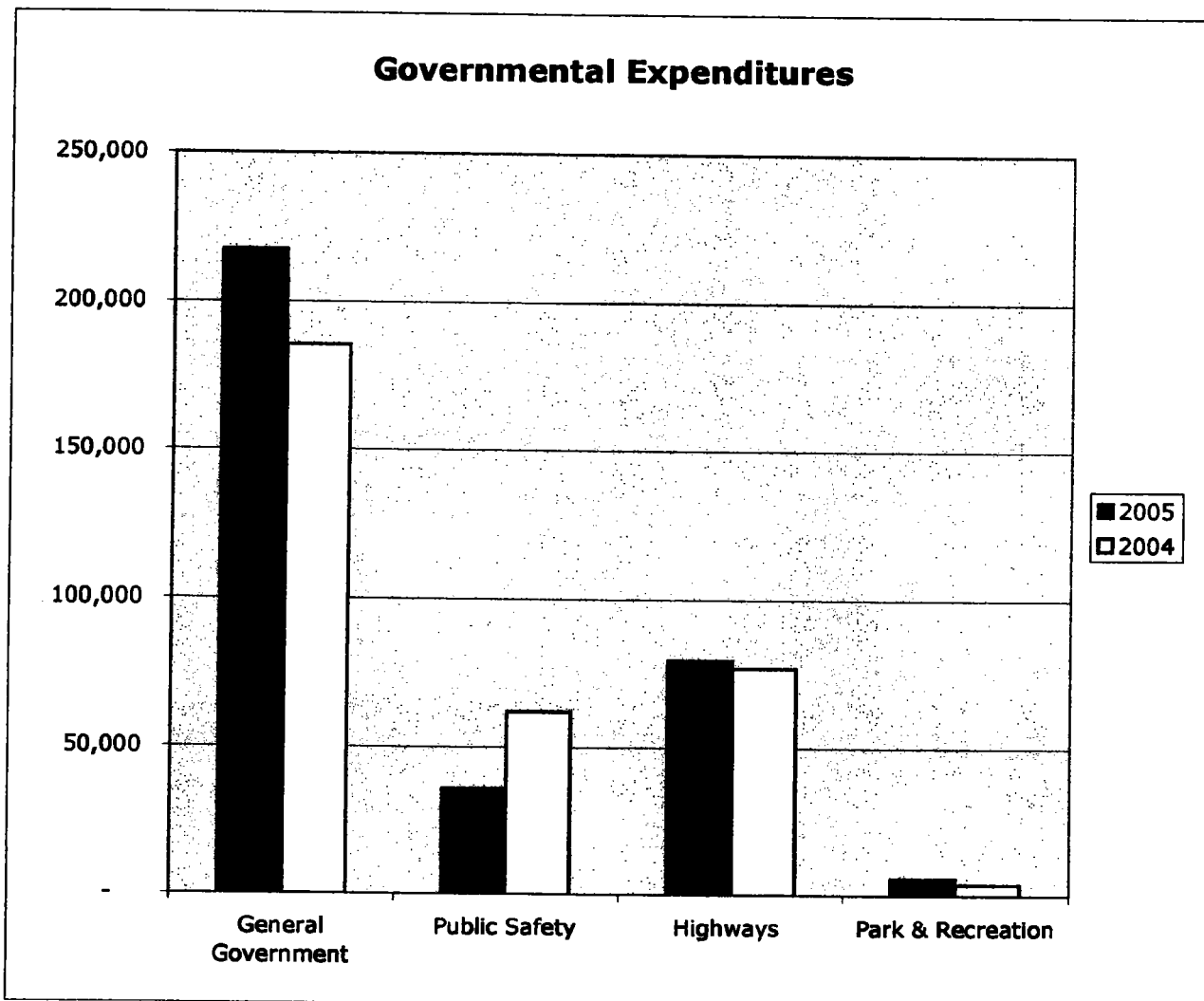
Escalante City
Governmental Revenues
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
Property Taxes	87,149	86,351
Other Taxes	154,784	138,967
Operating Grants	50,513	72,952
Capital Grants	334,883	468,990
Charges for Services	27,571	39,142
Other	13,113	
Interest	17,155	9,997
Total Revenues	685,168	816,399



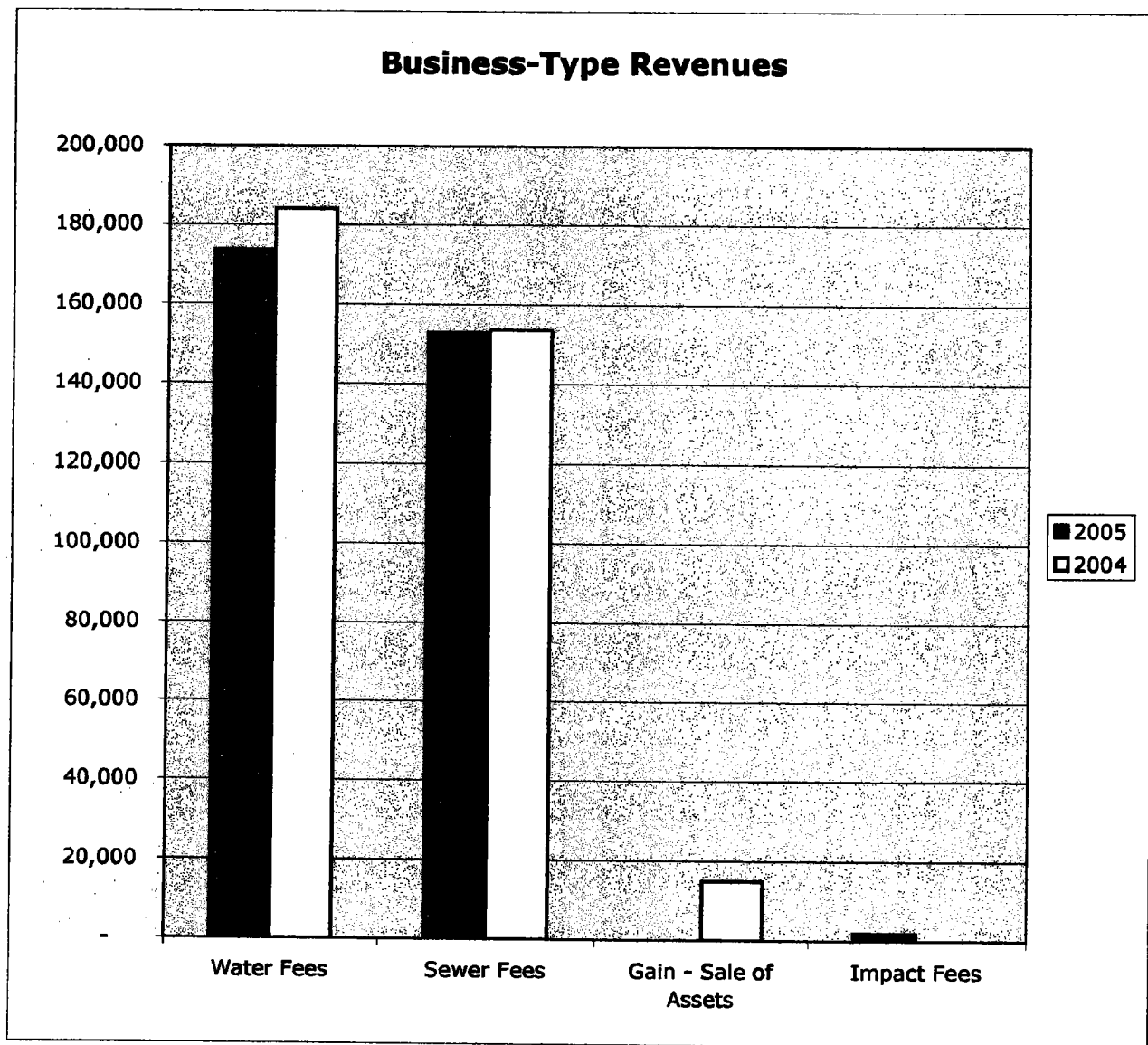
Escalante City
Governmental Expenditures
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
General Government	217,369	185,410
Public Safety	35,883	61,995
Highways	79,596	77,013
Park & Recreation	5,742	3,800
Total Expenditures	338,590	328,218



Escalante City
Business-Type Revenues
For The Fiscal Years Ending June 30, 2005 and 2004

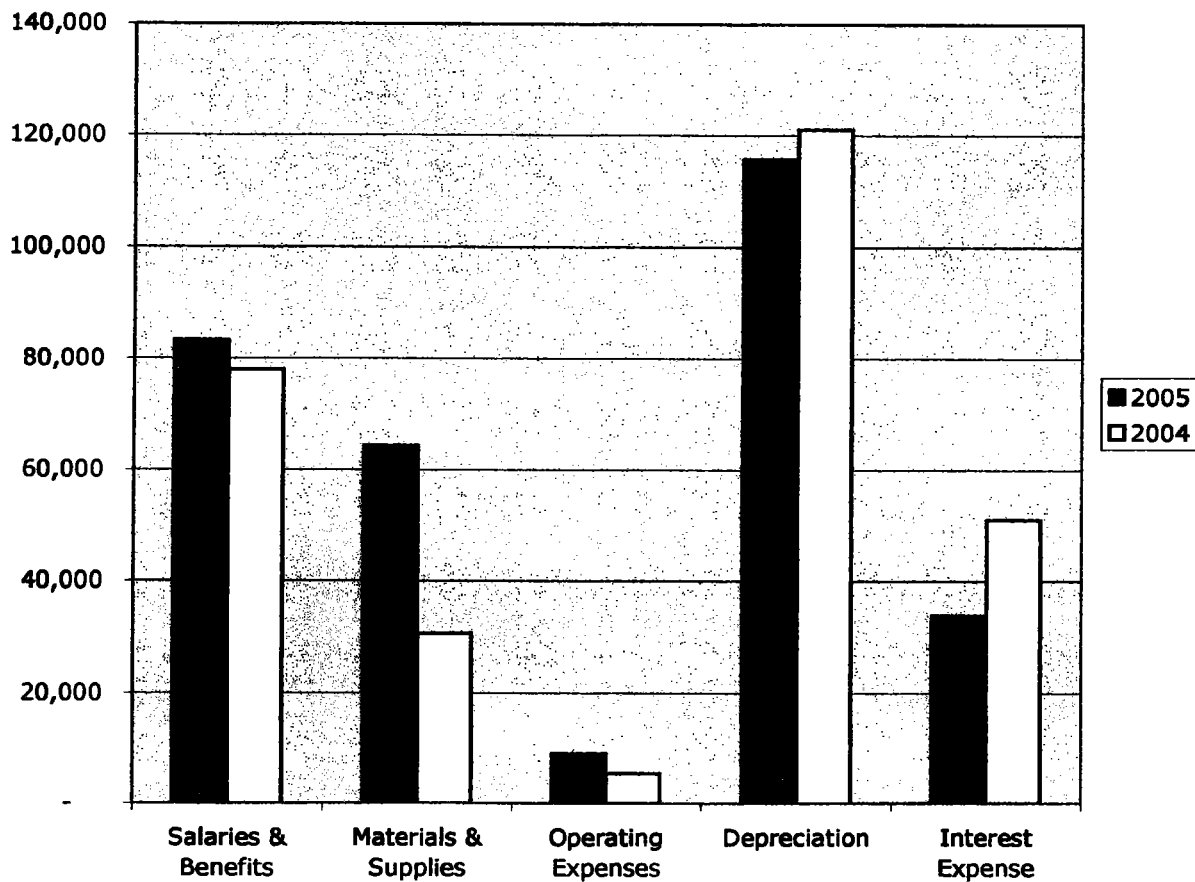
	2005	2004
Water Fees	173,759	184,044
Sewer Fees	153,048	153,570
Gain - Sale of Assets		15,000
Impact Fees	2,000	-
Total Revenues	328,807	352,614



Escalante City
Business Type Expenditures
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
Salaries & Benefits	83,293	77,947
Materials & Supplies	64,237	30,722
Operating Expenses	8,924	5,369
Depreciation	115,725	121,125
Interest Expense	33,931	50,964
Total Expenditures	306,110	286,127

Business-Type Expenditures



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BASIC FINANCIAL STATEMENTS

ESCALANTE CITY
STATEMENT OF NET ASSETS
June 30, 2005

		Primary Government	
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	306,289	337,591	643,880
Accounts Receivable (Net)	1,545	81,583	83,128
Due From Other Government Units	10,026	-	10,026
Total Current Assets	317,860	419,174	737,034
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	2,712	97,500	100,212
Capital Assets (Net of Accumulated Depreciation):			
Land	61,100	154,744	215,844
Water Shares	-	54,000	54,000
Buildings	140,500	-	140,500
Improvements	783,276	-	783,276
Equipment	36,000	55,300	91,300
Water Distribution Center	-	1,272,242	1,272,242
Sewer System	-	1,491,550	1,491,550
Infrastructure	92,200	-	92,200
Total Noncurrent Assets	1,115,788	3,125,336	4,241,124
TOTAL ASSETS	1,433,648	3,544,510	4,978,158
LIABILITIES			
Current Liabilities:			
Accounts Payable	1,778	-	1,778
Accrued Interest Payable	-	9,500	9,500
Revenue Bonds Payable - Due Within One Year	-	112,000	112,000
Total Current Liabilities	1,778	121,500	123,278
Noncurrent Liabilities:			
Revenue Bonds Payable - More Than One Year	-	940,000	940,000
Compensated Absences	17,873	-	17,873
Total Noncurrent Liabilities	17,873	940,000	957,873
TOTAL LIABILITIES	19,651	1,061,500	1,081,151
NET ASSETS			
Investment in Capital Assets, Net of Debt	1,113,076	1,966,336	3,079,412
Restricted For:			
Bond Retirement	-	97,500	97,500
Class C Road	276,000	-	276,000
Landfill	2,712	-	2,712
Unrestricted	22,209	419,174	441,383
TOTAL NET ASSETS	1,413,997	2,483,010	3,897,007
TOTAL LIABILITIES AND NET ASSETS	1,433,648	3,544,510	4,978,158

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2005

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants/ Contributions		Primary Government		
			Capital Grants/ Contributions		Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	217,369	27,571	-	334,883	145,085	-	145,085
Public Safety	35,883	-	1,391	-	(34,492)	-	(34,492)
Highways and Public Improvements	79,596	-	49,122	-	(30,474)	-	(30,474)
Parks and Recreation	5,742	-	-	-	(5,742)	-	(5,742)
Interest on Long-Term Debt	-	-	-	-	-	(33,931)	(33,931)
Total Governmental Activities	338,590	27,571	50,513	334,883	74,377	(33,931)	40,446
Business-Type Activities:							
Water and Sewer	272,179	326,807	-	-	-	54,628	54,628
Total Primary Government	610,769	354,378	50,513	334,883	74,377	20,697	95,074
General Revenues:							
Property Taxes					87,149	-	87,149
Fee-In-Lieu of Property Taxes					16,159	-	16,159
Other Taxes					18,436	-	18,436
Sales Taxes					85,968	-	85,968
Franchise Fees					34,221	-	34,221
Impact Fees					-	2,000	2,000
Gain on Sale of Fixed Assets					13,113	-	13,113
Unrestricted Investment Earnings					17,155	-	17,155
Total General Revenues and Transfers					272,201	2,000	274,201
Change in Net Assets					346,578	22,697	369,275
Net Assets - Beginning					1,067,419	2,460,313	3,527,732
Net Assets - Ending					1,413,997	2,483,010	3,897,007

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
BALANCE SHEET - GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2005

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	309,001
Accounts Receivable (Net)	1,545
Due From Other Government Units	<u>10,026</u>
TOTAL ASSETS	<u><u>320,572</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	<u>1,778</u>
Total Liabilities	<u>1,778</u>
Fund Balances:	
Reserved For:	
Landfill Postclosure	2,712
Class "C" Road	276,000
Unreserved, Reported In:	
General Fund	<u>40,082</u>
Total Fund Balance	<u>318,794</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>320,572</u></u>

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2005

Total Fund Balances - Governmental Fund Types	318,794
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land	61,100	
Buildings	140,500	
Improvements	783,276	
Equipment	36,000	
Infrastructure	<u>92,200</u>	
 Total		 1,113,076

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Compensated Absences	<u>(17,873)</u>
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Net Assets of Government Activities	<u><u>1,413,997</u></u>
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ESCALANTE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2005

	<u>General Fund</u>
Revenues:	
Taxes	241,933
Licenses and Permits	4,972
Intergovernmental Revenue	385,396
Fines and Forfeitures	9,033
Interest	17,155
Miscellaneous Revenues	<u>26,679</u>
 Total Revenues	 <u>685,168</u>
 Expenditures:	
Current:	
General Government	167,090
Public Safety	34,453
Highways and Public Improvements	59,596
Parks and Recreation	4,855
Capital Outlay	<u>369,950</u>
 Total Expenditures	 <u>635,944</u>
 Net Change In Fund Balance	 49,224
 Fund Balance - Beginning	 <u>269,570</u>
 Fund Balance - Ending	 <u><u>318,794</u></u>

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities
are different because:

Net Changes in Fund Balances - Total Governmental Funds	49,224
---	--------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	369,950	
Depreciation Expense	<u>(67,374)</u>	
 Total		 302,576

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated Absences	<u>(5,222)</u>
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Changes In Net Assets of Governmental Activities	<u><u>346,578</u></u>
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**ESCALANTE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2005

	Business-Type Activity Enterprise Fund		
	Water System	Sewer System	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	132,377	205,214	337,591
Accounts Receivable	63,903	17,680	81,583
Total Current Assets	196,280	222,894	419,174
Noncurrent Assets:			
Investments - Restricted:			
Bond Reserves	66,500	31,000	97,500
Capital Assets: (Net of Accum. Depreciation)			
Land	4,000	150,744	154,744
Water Shares	54,000	-	54,000
Water and Sewer Systems	1,272,242	1,491,550	2,763,792
Equipment	27,650	27,650	55,300
Total Noncurrent Assets	1,424,392	1,700,944	3,125,336
TOTAL ASSETS	1,620,672	1,923,838	3,544,510
LIABILITIES:			
Current Liabilities:			
Bond Interest Payable	4,600	4,900	9,500
Bonds Payable - Current Portion	39,000	73,000	112,000
Total Current Liabilities	43,600	77,900	121,500
Noncurrent Liabilities:			
Bonds Payable - Long-Term Portion	473,000	467,000	940,000
TOTAL LIABILITIES	516,600	544,900	1,061,500
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	841,292	1,125,044	1,966,336
Restricted for Bond Reserves	66,500	31,000	97,500
Unrestricted	196,280	222,894	419,174
TOTAL NET ASSETS	1,104,072	1,378,938	2,483,010
TOTAL LIABILITIES AND NET ASSETS	1,620,672	1,923,838	3,544,510

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

June 30, 2005

	Business-Type Activity Enterprise Fund		
	Water System	Sewer System	Total
Operating Revenues:			
Charges for Sales and Services:			
Water	173,759	-	173,759
Sewer	-	153,048	153,048
Total Operating Revenues	173,759	153,048	326,807
Operating Expenses:			
Salaries and Wages	46,956	15,775	62,731
Fringe Benefits	14,628	5,934	20,562
Materials and Supplies	61,379	2,858	64,237
Utilities	988	798	1,786
Other Charges	1,409	5,729	7,138
Depreciation	51,700	64,025	115,725
Total Operating Expenses	177,060	95,119	272,179
Operating Income	(3,301)	57,929	54,628
Nonoperating Revenues (Expenses):			
Impact Fees	-	2,000	2,000
Interest Expense	(13,335)	(20,596)	(33,931)
Total Nonoperating Revenues (Expenses)	(13,335)	(18,596)	(31,931)
Change in Net Assets	(16,636)	39,333	22,697
Total Net Assets - Beginning	1,120,708	1,339,605	2,460,313
Total Net Assets - Ending	1,104,072	1,378,938	2,483,010

The notes to the financial statements are an integral part of this statement.

**ESCALANTE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

June 30, 2005

	Business-Type Activity Enterprise Fund		
	Water System	Sewer System	Total
Cash Flows From Operating Activities:			
Receipts From Customers	165,696	155,458	321,154
Payments to Suppliers	(78,604)	(16,019)	(94,623)
Payments to Employees	(46,956)	(15,775)	(62,731)
Net Cash Provided by Operating Activities	40,136	123,664	163,800
Cash Flows From Capital and Related Financing Activities:			
Purchase of Capital Assets	(3,250)	(3,250)	(6,500)
Impact Fees	-	2,000	2,000
Principal Paid on Capital Debt	(39,000)	(68,000)	(107,000)
Interest Paid on Capital Debt	(13,335)	(20,596)	(33,931)
Net Cash Provided (Used) by Capital and Related Financing Activities	(55,585)	(89,846)	(145,431)
Net Increase (Decrease) in Cash and Cash Equivalents	(15,449)	33,818	18,369
Cash and Cash Equivalents - Beginning	214,326	202,396	416,722
Cash and Cash Equivalents - Ending	198,877	236,214	435,091
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:			
Operating Income	(3,301)	57,929	54,628
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:			
Depreciation	51,700	64,025	115,725
Increase (Decrease) in Operating Assets:			
Accounts Receivable	(8,063)	2,410	(5,653)
Accrued Liabilities	(200)	(700)	(900)
Total Adjustments	43,437	65,735	109,172
Net Cash Provided (Used) by Operating Activities	40,136	123,664	163,800

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Escalante City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2005.

The following is a summary of the more significant policies:

A. Reporting Entity

Escalante City is a municipal corporation in Garfield County, Utah. It is governed by an elected mayor and five member council. As required by generally accepted accounting principles, these financial statements are of the primary government, Escalante City, the reporting entity. The City has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Escalante City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Government reports the following Proprietary Funds:

The Water and Sewer Fund accounts for the activities of the City utility funds operation. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Water System	35 - 40 Years
Machinery and Equipment	5 - 10 Years

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

E. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Budgets and Budgetary Accounting:

The governing body of the entity shall establish the time and place of the public hearing to consider the adoption of the budget and shall publish notice of the hearing at least seven days prior to the hearing (no time period given for towns) in at least one issue of the newspaper of general circulation published within the County in which the entity is located. If no such newspaper is published, the required notice may be posted in three public places within the entity's jurisdiction.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The tentative budget must be made available to the public for inspection for a number of days, as provided by law, prior to the budget hearing.

1. On or before the first regularly scheduled meeting of the City Council in the month of May, the mayor prepares a tentative budget for the next budget year.
2. After a public notice has been published, a public hearing is then held on the adoption of the budget.
3. After the public hearing, the City Council makes final adjustments to the tentative budget.
4. On or before June 22, the City Council adopts the budget by resolution or ordinance and sets the tax rate for taxes.
5. The budget officer may transfer unexpended budgeted amounts within departments.
6. The City Council may transfer unexpended budgeted amounts from one department in a fund to another department in the same fund by resolution.
7. The total budget appropriation of any governmental fund may be increased only after a public hearing has been held and followed by resolution of the City Council.
8. Proprietary Fund budgets may be increased without a public hearing by resolution of the City Council.
9. Budgets for the General fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The appropriated budget is prepared by fund, function and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

The Fiscal Procedures Act for Utah Towns require local municipalities to restrict expenditures to authorized departmental budgets. The combined statement of revenues, expenditures and changes in fund balance - budget and actual identifies the departments and funds which have overexpended budgeted amounts if any and, therefore, do not comply with appropriate fiscal procedures.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Tax Calendar:

January 1	Lien Date - All property appraised based upon situs and status as of this date (real and personal).
March 1	Calendar year taxing entities must inform the County of the date, time and place of the budget hearing for the next fiscal year for inclusion with tax notice.
June 22	All taxing entities to adopt tentative budgets and proposed tax rates and report them to the county auditor.
July 22	County auditor to prepare and mail Notice of Valuation and Tax Changes to all real property owners, including centrally assessed property owners or in the event that Notices of Valuation and Tax Changes are not required, the county auditor is to compute taxes and the county treasurer is to mail tax notices.
September 1	State Tax Commission approves tax rates.
November 1	County auditor is to deliver the equalized assessment roll to the county treasurer with affidavit.
November 1	County auditor to charge the county treasurer to account for all taxes levied.
November 1	County treasurer to mail tax notices. Tax notices for calendar year entities include notice of budget hearings.
November 30	Taxes on real property become delinquent.

NOTE 2 - DEPOSIT AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments".

Deposits:

At year end, the carrying amount of the City's deposits was \$23,713 and the bank balance was \$44,320. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council. Petty cash was \$100.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2 - DEPOSIT AND INVESTMENTS (CONTINUED)

Investments:

Statutes authorize the City to invest in obligations of the U. S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standards and Poors Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase agreements, and the State Treasurer's Investment Pool. The City is also authorized to enter into reverse repurchase agreements.

The City's investments are categorized below to give an indication of the risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City in the City's name, and includes deposits collateralized by securities held by the City in the City's name. Category 2 includes uninsured and unregistered investments for which the investments are held by a broker or dealer in the City's name, and includes deposits collateralized by securities held by the pledging institution in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer but not in the City's name, and includes deposits not insured or collateralized.

Escalante City's investments at year end are shown below:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value/ Carrying Amount</u>
Investments	<u>-</u>	<u>-</u>	<u>-</u>	-
Other Items:				
State Treasurer's Investment Pool				<u>720,279</u>
Total				<u>720,279</u>

The Utah Public Treasurer's Investment Fund is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

Cash is reflected in the financial statements as follows:

Governmental Activities	309,001
Business-Type Activities	<u>435,091</u>
Total	<u>744,092</u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 3 - BOND RESERVES

Escalante City is required to deposit into six reserve funds in connection with their Water Bond issues:

1. Water Reserve Fund - \$150 per month for 120 months to a maximum of \$18,000.
2. Water Emergency Reserve - \$150 per month for 120 months to a maximum of \$18,000.
3. 1998A Water Reserve - \$250 per month for 72 months to a maximum of \$18,000.
4. 1998B Water Reserve - \$150 per month for 120 months to a maximum of \$18,000.
5. 1999 Sewer Reserve - \$237 per month for 72 months to a maximum of \$18,000.
6. 1999 Sewer Emergency Reserve - \$237 per month for 72 months to a maximum of \$18,000.

The reserve funds have met the required amounts at June 30, 2005. The balance in the reserve funds at year end was \$97,500.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	61,100	-	-	61,100
 Total Capital Assets Not Being Depreciated	61,100	-	-	61,100
 Capital Assets Being Depreciated:				
Buildings	216,000	-	-	216,000
Improvements	520,500	329,950	-	850,450
Equipment	-	40,000	-	40,000
Vehicles	159,350	-	-	159,350
Infrastructure	320,000	-	-	320,000
 Total Capital Assets Being Depreciated	1,215,850	369,950	-	1,585,800
 Less Accumulated Depreciation For:				
Buildings	69,300	6,200	-	75,500
Improvements	26,000	41,174	-	67,174
Equipment	-	4,000	-	4,000
Vehicles	159,350	-	-	159,350
Infrastructure	211,800	16,000	-	227,800
 Total Accumulated Depreciation	466,450	67,374	-	533,824
 Total Capital Assets Being Depreciated (Net)	749,400	302,576	-	1,051,976
 Governmental Activities Capital Assets, Net	810,500	302,576	-	1,113,076

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	154,744	-	-	154,744
Water Shares	<u>54,000</u>	<u>-</u>	<u>-</u>	<u>54,000</u>
 Total Capital Assets Not Being Depreciated	 <u>208,744</u>	 <u>-</u>	 <u>-</u>	 <u>208,744</u>
 Capital Assets Being Depreciated:				
Equipment	113,800	6,500	-	120,300
Water System	1,883,200	-	-	1,883,200
Sewer System	<u>2,353,000</u>	<u>-</u>	<u>-</u>	<u>2,353,000</u>
 Total Capital Assets Being Depreciated	 <u>4,350,000</u>	 <u>6,500</u>	 <u>-</u>	 <u>4,356,500</u>
 Less Accumulated Depreciation For:				
Equipment	56,800	8,200	-	65,000
Water System	562,258	48,700	-	610,958
Sewer System	<u>802,625</u>	<u>58,825</u>	<u>-</u>	<u>861,450</u>
 Total Accumulated Depreciation	 <u>1,421,683</u>	 <u>115,725</u>	 <u>-</u>	 <u>1,537,408</u>
 Total Capital Assets Being Depreciated (Net)	 <u>2,928,317</u>	 <u>(109,225)</u>	 <u>-</u>	 <u>2,819,092</u>
 Business Type Activities Capital Assets, Net	 <u>3,137,061</u>	 <u>(109,225)</u>	 <u>-</u>	 <u>3,027,836</u>
 Total Capital Assets	 <u><u>3,947,561</u></u>	 <u><u>193,351</u></u>	 <u><u>-</u></u>	 <u><u>4,140,912</u></u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Primary Government as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
General Government	45,057	-	45,057
Public Safety	1,430	-	1,430
Public Health	-	115,725	115,725
Parks and Recreation	887	-	887
Highways and Public Improvements	20,000	-	20,000
Total Depreciation Expense	<u>67,374</u>	<u>115,725</u>	<u>183,099</u>

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable represents amounts owed certain vendors at June 30, 2005 and paid in July 2005.

NOTE 6 - LONG-TERM DEBT

General Long-Term Debt

Compensated Absences:

Accrued Vacation and Sick Pay	<u>17,873</u>
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The following is a summary of changes in General Long-Term Debt:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Compensated Absences	<u>12,651</u>	<u>5,222</u>	<u>-</u>	<u>17,873</u>

Utility Revenue Bonds

Parity Water Revenue Bond - Series 1990:

On August 20, 1990, Escalante City approved and issued a \$270,000 Parity Water Revenue Bond Series 1990, for culinary water system improvements, to be purchased by the Board of Water Resources. The Series 1990 bonds are interest free and shall mature in twenty (20) annual principal installments on January 1st of each year. The principal balance at June 30, 2005, was \$108,000.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The following is a principal payment schedule to maturity:

	<u>Principal</u>
2006	18,000
2007	18,000
2008	18,000
2009	18,000
2010	18,000
2011	<u>18,000</u>
Total	<u><u>108,000</u></u>

Sewer Refunding Revenue Bonds:

On May 1, 1996, Escalante City's Sewer Fund issued \$389,000 in sewer refunding revenue bonds with a variable interest rate of approximately 8% to advance refund \$374,000 revenue bonds with rate of 11.22%. The new proceeds of \$389,000 were used to retire the outstanding debt, accrued interest and other issuance costs.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15,000. The City completed the advance refunding to reduce its total debt service payments over the next eleven years by \$136,700 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$61,507.

The debt service requirements of the Sewer Refunding Revenue Bonds are as follows:

<u>Period Ending</u>	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/06	7.750	47,000.00	7,517.50	7,525.25
5/1/07	7.750	<u>50,000.00</u>	<u>3,875.00</u>	<u>3,882.75</u>
		<u><u>97,000.00</u></u>	<u><u>11,392.50</u></u>	<u><u>11,408.00</u></u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds - Series 1998A and 1998B:

On September 2, 1998, Escalante City issued \$270,000 Parity Water Revenue Bonds, Series 1998A to the Utah Permanent Community Impact Board and \$230,000 Parity Water Revenue Bonds, Series 1998B to the Utah State Department of Environmental Quality, Division of Drinking Water.

The bonds were issued for the purpose of partially funding the cost of acquisition of additional water rights, spring development, water storage improvements and distribution system improvements.

The following is a debt service payment schedule to maturity for the \$270,000 Water Revenue Series 1998A, 3%, CIB Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	11,000	6,840	17,840
2006-2007	12,000	6,510	18,510
2007-2008	12,000	6,150	18,150
2008-2009	12,000	5,790	17,790
2009-2010	13,000	5,430	18,430
2011-2015	69,000	21,210	90,210
2016-2020	81,000	10,140	91,140
2021-2025	18,000	540	18,540
Total	<u>228,000</u>	<u>62,610</u>	<u>290,610</u>

The following is a debt service payment schedule to maturity for the \$230,000 Water Revenue Series 1998B, 3.32%, Drinking Water Board Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	10,000	5,843	15,843
2006-2007	10,000	5,511	15,511
2007-2008	11,000	5,179	16,179
2008-2009	11,000	4,814	15,814
2009-2010	12,000	4,449	16,449
2011-2015	63,000	16,168	79,168
2016-2020	59,000	4,947	63,947
Total	<u>176,000</u>	<u>46,911</u>	<u>222,911</u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Sewer Revenue Bonds - 1999:

On October 8, 1999, Escalante City issued revenue bonds in the amount of \$563,000 to the Utah State Department of Environmental Quality, Division of Water Quality, for the purpose of financing the cost of acquiring, constructing, improving and extending the sewer system of the City. The bonds require 20 yearly payments including interest at 2%.

The following is a debt service payment schedule to maturity for the \$563,000 Sewer Revenue Series 1999, 2%, Department of Environmental Quality Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	26,000	8,860	34,860
2006-2007	26,000	8,340	34,340
2007-2008	27,000	7,820	34,820
2008-2009	27,000	7,280	34,280
2009-2010	28,000	6,740	34,740
2011-2015	147,000	25,160	172,160
2016-2020	<u>162,000</u>	<u>9,860</u>	<u>171,860</u>
Total	<u>443,000</u>	<u>74,060</u>	<u>517,060</u>

The following is a summary of utility revenue bonds to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	112,000	29,061	141,061
2006-2007	116,000	24,236	140,236
2007-2008	68,000	19,149	87,149
2008-2009	68,000	17,884	85,884
2009-2010	71,000	16,619	87,619
2011-2015	297,000	62,538	359,538
2016-2020	302,000	24,947	326,947
2021-2025	<u>18,000</u>	<u>540</u>	<u>18,540</u>
Total	<u>1,052,000</u>	<u>194,974</u>	<u>1,246,974</u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The following is a schedule of changes in utility revenue bonds payable:

Bond Issue:	Date of Issue	Interest Rate	Total Issued	Outstanding June 30, 2004	Current Year Changes		Outstanding June 30, 2005
					Issued	Matured	
Water Revenue Bonds	1990	0%	270,000	126,000	-	18,000	108,000
Sewer Refunding Revenue Bonds	1996	8%	389,000	140,000	-	43,000	97,000
Water Revenue Bonds Series 1998A	1999	3%	270,000	239,000	-	11,000	228,000
Water Revenue Bonds Series 1998B	1999	3.32%	230,000	186,000	-	10,000	176,000
Sewer Revenue Bonds Series 1999	1999	2%	563,000	468,000	-	25,000	443,000
Total			1,722,000	1,159,000	-	107,000	1,052,000

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 7 - CLASS "C" ROADS

The following is a statement of receipts and disbursements in Class "C" Roads:

Fund Balance - Beginning of Year	220,000
Receipts:	
State of Utah	49,122
Interest	<u>6,878</u>
Total Receipts	56,000
Disbursements	<u>-</u>
Fund Balance - End of Year	<u><u>276,000</u></u>

NOTE 8 - IMPACT FEES

Effective February 15, 2000, the City adopted an impact fee ordinance for the purpose of requiring that existing, as well as new, development pay for the fair share of public facilities through impact fees which will be used to finance, defray or reimburse the City for all or a portion of the cost of public facilities which serve such development. The amount of the impact fee was to be calculated and based on the impact of new development on public facilities.

The impact fees were based on the following schedule:

<u>Capital Facility</u>	<u>Cost of Impact Fee Per Residential Unit</u>
Culinary Water Source, Storage and Distribution	1,000
Wastewater Collection and Treatment	<u>1,000</u>
Total of All Impact Fees	<u><u>2,000</u></u>

During the current year no water impact fees were collected and two sewer impact fees were collected. All water and sewer impact fees collected have been expended on appropriate projects.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 9 - MUNICIPAL SOLID WASTE LANDFILL - CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. The landfill began accepting waste in mid 1995. The annual estimated postclosure care costs were estimated to cost \$500 annually for five years. Closure costs have been estimated at \$2,500. These amounts are based on what it would cost to perform all closure and postclosure care when the landfill is filled to capacity. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by State and Federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and has established a trust fund in the amount of \$2,500. Money deposited in the trust fund will be used exclusively for closure, postclosure care, and corrective action. Interest earned on the fund will be deposited to the Trust Fund. The fund will be evaluated on an annual basis and may be increased as needed by resolution. The balance at year end was \$2,711.84.

NOTE 10 - PENSION PLAN

Local Governmental - Cost Sharing:

Plan Description:

Escalante City contributes to the Local Governmental Noncontributory Retirement System which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that included financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

Escalante City is required to contribute a percent of covered salary to the respective systems; 11.90% to the Noncontributory System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 10 - PENSION PLAN (CONTINUED)

Escalante City contributions to the various systems for the years ending June 30, 2005, 2004 and 2003 respectively were; for the Noncontributory System, \$13,935.23, \$11,013.70 and \$9,151.94, respectively. The contributions were equal to the required contributions for each year.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Utah Risk Management Mutual Association (URMMA). Through URMMA, the City maintains general liability, errors and omissions, newly acquired property, builders risk, unscheduled locations crime and boiler machinery coverage. URMMA does not provide coverage for all risks and hazards, however, the City has obtained coverage for these risks through other commercial carriers for employee accidental death and dismemberment, workers compensation and surety bond coverage.

The City provided medical and health coverage through a policy with Blue Cross and Blue Shield of Utah. The maximum out-of-pocket expense per person per year is \$250 deductible or \$750 deductible per family per year. After deductible, Blue Cross and Blue Shield of Utah pays 80% and member pays 20% of eligible medical expenses.

Claims have not exceeded coverage in any of the last three calendar years.

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is used to assist in formatting, for easier reading)

**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**ESCALANTE CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note A)	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1, 2004	<u>269,570</u>	<u>269,570</u>	<u>269,570</u>	<u>-</u>
Resources (Inflows):				
Taxes:				
General Property Taxes	89,000	87,000	81,122	(5,878)
Prior Years Taxes	-	166	6,027	5,861
Fee-In-Lieu	18,000	26,700	16,159	(10,541)
General Sales and Use Taxes	90,000	83,000	85,968	2,968
Innkeeper Tax	6,000	6,780	6,779	(1)
Recreation	11,000	11,500	11,657	157
Franchise Taxes	<u>25,000</u>	<u>28,000</u>	<u>34,221</u>	<u>6,221</u>
Total Taxes	<u>239,000</u>	<u>243,146</u>	<u>241,933</u>	<u>(1,213)</u>
Licenses and Permits	<u>4,370</u>	<u>4,972</u>	<u>4,972</u>	<u>-</u>
Intergovernmental Revenue:				
Class C Road	61,000	55,585	49,122	(6,463)
State Liquor Allotment	1,370	1,391	1,391	-
Federal Grants	-	303,088	303,088	-
State and Local Shared Revenue	<u>5,500</u>	<u>33,500</u>	<u>31,795</u>	<u>(1,705)</u>
Total Intergovernmental Revenue	<u>67,870</u>	<u>393,564</u>	<u>385,396</u>	<u>(8,168)</u>
Fines and Forfeitures	<u>12,000</u>	<u>9,500</u>	<u>9,033</u>	<u>(467)</u>
Miscellaneous:				
Interest	12,000	16,500	17,155	655
Rents and Concessions	15,000	6,500	6,480	(20)
Sundry	-	26,000	20,199	(5,801)
Use of Fund Balance	<u>-</u>	<u>31,000</u>	<u>-</u>	<u>(31,000)</u>
Total Miscellaneous Revenue	<u>27,000</u>	<u>80,000</u>	<u>43,834</u>	<u>(36,166)</u>
Amounts Available for Appropriation	<u>619,810</u>	<u>1,000,752</u>	<u>954,738</u>	<u>(46,014)</u>

**ESCALANTE CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Charges to Appropriations (Outflows):				
General Government:				
Administration	138,590	480,233	475,324	4,909
Legislative	8,400	7,842	7,842	-
Court	13,000	14,572	13,874	698
Total General Government	<u>159,990</u>	<u>502,647</u>	<u>497,040</u>	<u>5,607</u>
Public Safety:				
Police	35,000	30,000	7,084	22,916
Fire	29,050	29,600	27,369	2,231
Total Public Safety	<u>64,050</u>	<u>59,600</u>	<u>34,453</u>	<u>25,147</u>
Highway and Public Improvements:				
Highways and Streets	61,500	108,500	99,596	8,904
Class C Roads	61,000	55,585	-	55,585
Total Highways and Public Improvements	<u>122,500</u>	<u>164,085</u>	<u>99,596</u>	<u>64,489</u>
Culture and Recreation:				
Parks and Recreation	3,700	4,850	4,855	(5)
Total Charges to Appropriations	<u>350,240</u>	<u>731,182</u>	<u>635,944</u>	<u>95,238</u>
Budgetary Fund Balance - June 30, 2005	<u>269,570</u>	<u>269,570</u>	<u>318,794</u>	<u>49,224</u>

ESCALANTE CITY
NOTE A
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

For The Fiscal Year Ended June 30, 2005

	<u>General Fund</u>
Sources/Inflows and Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedules.	954,738
Differences - Budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	<u>(269,570)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u><u>685,168</u></u>
Uses/Outflows of Resources:	
Actual amounts (budgetary Basis "total charges to appropriations" from the budgetary comparison schedules.	635,944
Differences - Budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting pruposes.	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>635,944</u></u>

COMPLIANCE SECTION

Kimball & Roberts

Certified Public Accountants
A Professional Corporation

Box 663
Richfield, Utah 84701
Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Escalante City as and for the year ended June 30, 2005, which collectively comprise Escalante City's basic financial statements and have issued our report thereon dated August 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Escalante City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Escalante City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Mayor and City Council
Escalante City
Page -2-

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 16, 2005
Richfield, Utah

Kimball & Roberts

Certified Public Accountants
A Professional Corporation

Box 663
Richfield, Utah 84701
Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

We have audited the financial statements of Escalante City, for the fiscal year ended June 30, 2005, and have issued our report thereon dated August 16, 2005. As part of our audit, we have audited Escalante City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Blanding City's financial statements.)

Airport Grant (Department of Transportation)
Pavilion Grant (Department of Transportation)
Senior Center Grant (Department of Community and Economic Development)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

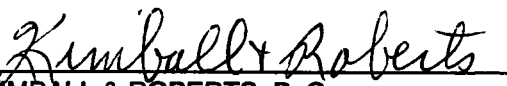
The management of Escalante City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Honorable Mayor and City Council
Escalante City
Page -2-

The results of our audit procedures no instances of noncompliance with the requirements referred to above.

In our opinion, Escalante City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2005.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 16, 2005
Richfield, Utah